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PAGE 01 CARACA 01192 01 OF 02 052033Z  
ACTION ARA-01

INFO	LOG-00	ACDA-15	AID-01	AMAD-01	CEA-01	CIAE-00	CTME-00
	C-01	DODE-00	EB-01	EXIM-06	E-01	FRB-03	H-01
	INRE-00	INR-01	ITC-01	JUSE-00	LAB-04	ADS-00	NSAE-00
	NSCE-00	OMB-01	OPIC-08	SEC-01	SNP-01	SP-01	SSO-00
	SS-01	STR-20	USIE-00	/071W			

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O 052033Z FEB 92 ZFF4  
FM AMEMBASSY CARACAS  
TO SECSTATE WASHDC IMMEDIATE 8048  
DEPTTREAS WASHDC IMMEDIATE  
USDOC WASHDC IMMEDIATE  
INFO AMEMBASSY BOGOTA  
AMEMBASSY LA PAZ  
AMEMBASSY LIMA  
AMEMBASSY QUITO

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TREASURY FOR ALLISON SHELTON

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PAGE 02 CARACA 01192 01 OF 02 052033Z  
PLEASE PASS FEDERAL RESERVE BOARD FOR TIM WILSON AND NY  
FED FOR ELLIOTT UCHITELLE

E.O. 12356: N/A

TAGS: EFIN, VE

SUBJECT: FOREIGN EXCHANGE MARKETS AND STOCK EXCHANGES  
CLOSE FOR 48 HOURS

1. (LOU) SUMMARY. IN REACTION TO THE ATTEMPTED COUP,  
FOREIGN EXCHANGE MARKETS AND STOCK EXCHANGES CLOSED ON

UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: OSCAR J OLSON  
DATE/CASE ID: 21 JUL 2006 200503206

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FEBRUARY 4 FOR 48 HOURS. COMMERCIAL BANKS WERE ALSO CLOSED ON FEBRUARY 4 BUT REOPENED FOR BOLIVAR TRANSACTIONS ON FEBRUARY 5. A CENTRAL BANK OFFICIAL TOLD US THAT THE EXCHANGE MARKETS WILL REOPEN ON FEBRUARY 6. HE EMPHASIZED THAT ONLY THE DOMESTIC FOREIGN EXCHANGE MARKETS ARE CLOSED AND THAT THE CENTRAL BANK IS CONTINUING TO CARRY OUT PROGRAMMED INTERNATIONAL TRANSACTIONS. THE CARACAS STOCK EXCHANGE WILL REOPEN PARTIALLY ON FEBRUARY 6; TRADING SESSIONS WILL RESUME ON FEBRUARY 7. THE PRICE OF VENEZUELAN DEBT ON THE SECONDARY MARKET FELL AT THE START OF THE TRADING SESSION ON FEBRUARY 4, BUT STRENGTHENED TO CLOSE AT ONLY A FEW CENTS LOWER THAN FEBRUARY 3. A NEW YORK INVESTMENT BANKER TOLD US THAT WHILE LONG TERM PROSPECTS REMAIN POSITIVE FOR VENEZUELA, HE THOUGHT IT WOULD BE DIFFICULT TO SELL VENEZUELAN RISK IN THE NEXT FEW MONTHS. END SUMMARY.

2. (U) ON FEBRUARY 4, EXCHANGE MARKETS AND THE CARACAS AND MARACAIBO STOCK EXCHANGES CLOSED FOR 48 HOURS.

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PAGE 03 CARACA 01192 01 OF 02 052033Z  
COMMERCIAL BANKS CLOSED VOLUNTARILY ON FEBRUARY 4 AND THE CENTRAL BANK SUSPENDED CLEARING OPERATIONS ON THAT DAY. COMMERCIAL BANKS REOPENED ON FEBRUARY 5 FOR BOLIVAR TRANSACTIONS.

3. (U) ACCORDING TO THE FEBRUARY 5 PRESS, A MONEY EXCHANGE HOUSE WHICH OPERATES AT THE INTERNATIONAL AIRPORT, CONTINUED OPERATING UNTIL 0330 IN THE MORNING OF FEBRUARY 4 AT WHICH TIME THE DOLLAR CLOSED AT 62.25 BOLIVARES, ABOUT THE SAME PRICE AS THE CLOSE ON MONDAY, FEBRUARY 3 (62.18/62.25 IN BANKS AND 61.65/62.20 IN MONEY EXCHANGE HOUSES).

4. (U) IN COMMENTS TO THE PRESS ON FEBRUARY 4, MINISTER OF FINANCE PEDRO ROSAS SAID THAT WITHIN 48 HOURS, THE SITUATION SHOULD RETURN TO NORMAL. THE MINISTER DID NOT EXPECT THAT THE ATTEMPTED COUP WOULD HAVE AN IMPACT ON THE FOREIGN EXCHANGE MARKETS BECAUSE VENEZUELA DOES NOT HAVE A BLACK MARKET IN FOR

EXCHANGE AND SECONDLY, THERE IS NO SHORTAGE OF FOREIGN EXCHANGE. ROSAS EMPHASIZED THAT THE COMMERCIAL BANKS ARE LIQUID SO THAT THE PUBLIC SHOULD NOT HAVE ANY DIFFICULTY WITHDRAWING BOLIVARES NOR USING AUTOMATIC

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TELLER MACHINES AND CREDIT CARDS.

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A CENTRAL BANK OFFICIAL COMMENTS ON EXCHANGE MARKETS

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5. (LOU) IN A CONVERSATION WITH ECONOFF ON FEBRUARY 5,  
THE CENTRAL BANK'S MANAGER OF INTERNATIONAL INVESTMENTS  
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PAGE 04 CARACA 01192 01 OF 02 052033Z  
DECLARED THAT UNLESS THERE IS SOME UNFORESEEN  
CIRCUMSTANCE, THE EXCHANGE MARKETQ WILL REOPEN ON  
FEBRUARY 6. THE DECISION TO CLOSE THE MARKET, HE  
EXPLAINED, WAS MADE THROUGH CONSENSUS OF THE MINISTRY OF  
FINANCE, THE CENTRAL BANK, AND THE NATIONAL BANKING  
COUNCIL, WHICH REPRESENTS THE PRIVATE SECTOR; NEITHER  
THE CENTRAL BANK, NOR THE PRESIDENT ISSUED A DECREE.  
THE OFFICIAL SAID THAT LATER IN THE DAY, CENTRAL BANK  
OFFICIALS PLANNED TO MEET WITH THE COMMERCIAL BANKS TO  
INFORM THEM THAT THE EXCHANGE MARKETS WOULD REOPEN AS  
SCHEDULED ON FEBRUARY 6 AND TO URGE THEM NOT TO PLACE  
UNDUE PRESSURE ON THE EXCHANGE RATE. EARLIER IN THE  
DAY, THE OFFICIAL SAID, A MEETING WAS HELD WITH A  
REPRESENTATIVE OF EXCHANGE HOUSES TO EXPLAIN THE  
SITUATION AND THE EXCHANGE HOUSES AGREED TO CLOSE UNTIL  
FEBRUARY 6.

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PAGE 01 CARACA 01192 02 OF 02 052034Z  
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6. (U) THE CENTRAL BANK OFFICIAL EMPHASIZED THAT ONLY  
THE DOMESTIC EXCHANGE MARKET WAS CLOSED. THE CENTRAL  
BANK WAS STILL CARRYING OUT ITS PROGRAMMED INTERNATIONAL  
TRANSACTIONS. THESE WERE OCCURRING NORMALLY.

STOCK EXCHANGE

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7. (U) VENEZUELA'S STOCK EXCHANGES IN MARACAIBO AND  
CARACAS WERE CLOSED ON FEBRUARY 4 FOR 48 HOURS. IN A

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FEBRUARY CONVERSATION WITH ECONOFF, AN OFFICIAL AT THE CARACAS STOCK EXCHANGE CONFIRMED THAT THE STOCK EXCHANGE WOULD REMAIN CLOSED ON FEBRUARY 5. THE OFFICIAL SAID THAT LATE IN THE MORNING OF FEBRUARY 5, THE EXCC HQEKXLPIN NEW YORK, THE PRICE CLOSED ONLY ABOUT TWO CENTS LOWER THAN THE FEBRUARY 3 CLOSE. THE MINISTER OF FINANCE NOTED THAT ALTHOUGH THE PRICE HAD DROPPED IN MORNING TRADING, BY THE END OF THE TRADING SESSION, THE PRICE OF VENEZUELAN DEBT HAD RETURNED TO THE LEVEL OF FEBRUARY 4.

A BANKER'S VIEWS ON THE REACTION OF FINANCIAL INVESTORS  
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9. (LOU) THE BANKER TOLD ECONOFF THAT HE WAS FINISHING AN ADVISORY WHICH WOULD BE SENT OUT TO THE FIRM'S TRADERS. IN HIS MEMO, HE SAW THE COUP ATTEMPT AS A REFLECTION OF UNDERLYING SOCIAL ILLS AND NOT A COUP ATTEMPT OF THE OLD LATIN AMERICAN SCHOOL. THEREFORE, HE THOUGHT PRESIDENT PEREZ WOULD DIRECT MORE RESOURCES TOWARD SOCIAL PROGRAMS. DURING THE REMAINDER OF THE YEAR, HE EXPECTED THE PACE OF THE AUSTERITY PROGRAM TO SLOW BUT THE FOCUS AND DIRECTION TO REMAIN UNCHANGED. HE HAD A POSITIVE VIEW OF THE ECONOMY'S PROSPECTS BUT BELIEVED THAT "IT WOULD BE TOUGH TO SELL VENEZUELAN RISK FOR THE NEXT FEW MONTHS."

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